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ABSTRACT

The General Accounting Office reviewed the overseas dependents school system to determine how schools for children overseas compare with schools in the United States in the areas of teacher salaries, student-teacher ratios, and cost of operations; if costs can be reduced; and whether the Department of Defense is complying with the congressional directive to centralize management. Teacher salaries and the student-teacher ratios in the two school systems compare favorably, but overseas schools incur costs that are unique to them and not all of these costs have been identified and reported. In some countries costs can be reduced by employing more United States citizens rather than foreign nationals primarily because of additional tax revenue from the incomes of citizens. It was recommended that the Office of Dependents Schools revise functions assigned to school officer personnel; identify and report all costs of operating the schools; set up a new accounting system; ensure that cost and budget information is reliable; and initiate programs to employ more United States citizens and dependents and find alternative means of providing bus transportation that would reduce overall costs of overseas schools. (Author/IRT)

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ED136417

REPORT TO THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Financial Management Of Overseas Dependents Schools

Department of Defense

U.S. DEPARTMENT OF HEALTH EDUCATION & WELFARE NATIONAL INSTITUTE OF EDUCATION

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More than 150,000 pupils are enrolled in schools for U.S. dependents overseas; these schools compare favorably with U.S. schools in the areas of student/teacher ratios and teacher salaries. As directed by the Congress, the overseas school system has been reorganized to centralize its management.

GAO recommends that school costs be reduced by employing more U.S. citizens and fewer foreign nationals and by finding alternative means of student transportation.

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EA 009 340

FPCD-77-7

FEB. 16, 1977

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-131587

The Honorable John L. McClellan
Chairman, Committee on Appropriations
United States Senate

Dear Mr. Chairman:

As requested in your February 4, 1976, letter, we are reporting on our review of the overseas dependents education program.

Management of the overseas dependents schools has been centralized as directed by the Congress. The schools are comparable to stateside schools in the areas of teacher staffing and salaries. We identified opportunities for potential cost reductions by hiring more U.S. citizens and dependents in lieu of foreign nationals and by alternative means of student transportation.

This report contains recommendations to the Secretary of Defense which are set forth on pages 15 and 19. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We will be in touch with your office in the near future to arrange for release of the report so that the requirements of section 236 can be set in motion.

Sincerely yours,

Comptroller General
of the United States

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office

COMPTROLLER GENERAL'S REPORT
TO THE COMMITTEE ON
APPROPRIATIONS
UNITED STATES SENATE

FINANCIAL MANAGEMENT OF OVERSEAS DEPENDENTS SCHOOLS
Department of Defense

D I G E S T

GAO reviewed the overseas dependents school system to determine:

--How schools for children overseas compare with schools in the United States in the areas of teacher salaries, student/teacher ratios, and cost of operations?

--Can costs be reduced?

--Is the Department of Defense complying with the congressional directive to centralize management?

COMPARISONS

Teacher salaries and student/teacher ratios in the two school systems compared favorably, but costs of running overseas schools could not be determined. (See p. 5.)

By law, overseas teacher salaries must be adjusted each school year to equal U.S. teacher salaries. Student/teacher ratios in the overseas schools approximated ratios in schools in the United States and closely followed standards for student/teacher ratios prescribed by the accrediting association.

Overseas schools incur costs unique to them and all of their costs have not been identified and reported, making any comparison difficult. (See p. 5.) The cost and budget justification data submitted to the Congress does not reflect the schools' costs nor support budget requests. The Office Director advised GAO that regional office reports on costs and employees were unreliable because the data collection system provided inaccurate information. The budget justification data prepared by the

Tear Sheet. Upon removal, the report cover date should be noted hereon.

European region and submitted to the Congress in support of the schools' budget request contained errors and overstatements of costs. (See p. 5.)

Contrary to congressional direction, military personnel acting as school officer personnel were involved in school operations. (See p. 11.)

COSTS

In some countries, managers can reduce costs by employing more U.S. citizens rather than foreign nationals, primarily because of additional tax revenues from their income. Alternative means of providing bus transportation for students should also cut costs. (See p. 17.)

MANAGEMENT

Management has been centralized. (See p. 3.) The Appropriations Committees directed that the Office of Dependents Schools manage the program and that the concept of geographical managers--each service responsible for a separate geographical area--be discontinued immediately. Since February 1976 the Directors of the Atlantic, European, and Pacific regions have been supervised by the Office of Dependents Schools Director rather than by service officials. All school system employees have been transferred from the services to the Office of Dependents Schools.

RECOMMENDATIONS

The Secretary of Defense should direct the Office of Dependents School to

--revise functions assigned to school officer personnel, limiting them to a liaison role;

--identify and report all costs of operating the schools;

--immediately set up an accounting system according to the objectives set forth in the Budget and Accounting Procedures Act of 1950;

--take action to discipline the system to make sure that cost and budget information is reliable (see p. 15); and

--initiate programs to employ more U.S. citizens and dependents and find alternative means of providing bus transportation which would reduce overall costs of overseas schools (see p. 19).

The Department of Defense agreed with the recommendations and said that actions were being taken to implement them. (See app. II.)

The question of using more U.S. citizens and dependents instead of foreign nationals, where economical, has wider implications than the overseas dependents schools. During the appropriation hearings, the Committee should find out what the Department of Defense is doing to employ more Americans in other positions where it is more economical and practicable to do so.

Tear Sheet

CHAPTER 1

INTRODUCTION

In a February 4, 1976, letter the Chairman, Senate Committee on Appropriations, requested us to review certain aspects of the overseas dependents education program. The request resulted from the Committee's concern about the program's rapidly rising cost and management. Specifically, we were asked to examine

--the extent to which the Department of Defense is complying with the congressional directive to centralize management and

--the comparability of overseas dependents schools with the stateside schools concerning teacher salaries, student/teacher ratios, cost of operations, and opportunities for cost reductions.

The Department of Defense (DOD) is authorized by its annual appropriation acts to provide primary and secondary schooling for minor dependents of military and civilian personnel of the Department stationed overseas. Under section 105 of the Civil Functions Appropriation Act, 1954, Public Law 83-153, 67 Stat. 202, as amended, the Department is also required to reimburse the Canal Zone Government for junior college education provided to DOD minor dependents living in the Canal Zone. Enrollment of a relatively small number of non-DOD dependent students is authorized on a reimbursable basis.

In carrying out this responsibility, DOD operates 264 schools in 26 foreign countries. Dormitory facilities are provided at 10 schools for approximately 1,050 students. Further, DOD contracts with private schools for the education of dependents stationed at locations not served by its schools.

The estimated number of DOD pupils and the amount appropriated for fiscal year 1977 are shown below.

	Enrollment	Costs
DOD operated schools	137,500	$216,622,000
Tuition-fee private schools	7,300	12,740,000
Canal Zone schools	6,300	13,438,000
Total	151,100	$242,800,000

The Assistant Secretary of Defense (Manpower and Reserve Affairs) is responsible for establishing the overall policies for the organization, operation, and administration of this worldwide school system. These reponsiblities have been delegated to the Director, Office of Dependents Schools. A Dependents Education Council was established as an educational policy council for consultation with the Assistant Secretary.

SCOPE OF REVIEW

Our review was directed toward specific areas of interest of the Senate Appropriations Committee. We examined directives, policies and procedures relating to organization and staffing, logistical services, and financial management. During our review, we visited headquarters and selected schools in the European region and the Office of Dependents Schools in Washington, D.C. We conducted interviews with school officials and examined pertinent files and records at each of the organizations visited.

CHAPTER 2

CENTRALIZED MANAGEMENT OF DEPENDENTS SCHOOLS

For the past several years, the Appropriations Committees have expressed concern about the diffusion of management and control over the operation of the dependents education program. (We expressed similar concerns in our prior report on the dependents schools. 1/) In an attempt to remedy this situation, the House Appropriations Committee directed DOD to consolidate program funding in the budget for Defense Agencies beginning with fiscal year 1975. Subsequently, the Committees determine that this action did not achieve their objectives for improving management control and providing uniform quality education. As a result, the Committees directed in the conference report on the Department of Defense Appropriation Bill for fiscal year 1976 that full responsibility for management of the program be vested in the Office of Dependents Schools and the concept of geographical managers 2/ be discontinued immediately. The President signed the bill on February 11, 1976.

The Deputy Secretary of Defense issued a memorandum to all DOD components advising them that effective on the date the bill was signed, the Director, Office of Dependents Schools, assumed full reponsibility for operation and management of all overseas dependents schools. The Director was instructed to develop a revised directive to reflect organizational, administrative and managerial changes. The revised directive became effective on July 1, 1976.

All employees of the school system have been transferred from the services to the DOD Office of Dependents Schools. Since February 1976, the Directors of the three geographical regions (Atlantic, European, and Pacific) have been under the supervision and direction of the Office Director rather than service officials.

The revised directive provides that the Director of Office of Dependents Schools shall:

1. Organize, manage, fund, direct, and supervise the

1/ "Problems in Providing Education Overseas for Dependents of U.S. Personnel" (B-131587, September 25, 1974).

2/ Each service was assigned responsibility for schools in a separate geographical area.

complete operation of the Department of Defense Dependents Schools and issue such policies and regulations as necessary to carry out the assigned mission.

2. Enter into agreements with the Military Departments or other U.S. Government entities, as required for the effective performance of the Dependents Schools program.

3. Establish subordinate offices necessary to fulfill the assigned mission.

4. Provide support to the Assistant Secretary of Defense (Installations and Logistics) in the development and justification of school construction, modification, and/or repair projects included in annual military construction programs.

The channels of communication are directly between the Office Director and the regional directors eliminating the time-consuming process of going through the formal military chain of command.

We believe that the actions taken by DOD comply with the congressional directive to centralize management and eliminate separate geographical management by the services.

CHAPTER 3

COMPARISONS WITH STATESIDE SCHOOLS

By law teacher salaries in the overseas school system must be equal to those of stateside schools. However, the cost of operating overseas schools cannot be readily compared with stateside schools because (1) DOD schools incur costs unique to their operation and (2) all costs of operating DOD schools have not been identified and reported. The overseas school system maintains membership in an accrediting association which prescribes staffing standards to be used by its members, most of which are stateside schools systems. We found no other valid indicators for comparing the school systems.

The cost and budget justification data submitted to the Congress cannot be fully relied upon to reflect the cost of school operations and support budget requests. The Office Director advised us that reports on costs and manpower prepared by the regional offices were unreliable because the data collection system did not provide accurate information. We found errors and overstatements of costs in the budget justification data prepared by the European region and submitted to the Congress in support of the schools' budget.

TEACHER SALARIES

Personnel in teaching and teaching related positions are employed on a school-year basis and their compensation and most other personnel policies stem from Public Law 86-91 (The Defense Department Overseas Teachers Pay Personnel Practices Act), as amended by Public Law 87-172 and Public Law 89-391 presently codified as sections 901-907 of title 20, United States Code (1970).

Public Law 86-91, as amended, provides that the basic compensation for dependents school teachers be set at rates equal to the average of the range of rates for similar positions in urban school jurisdictions in the United States of 100,000 or more population.

Based on the 1970 U.S. Census of Population, the latest data available, there are 205 public school jurisdictions in the United States with a population of 100,000 or more. For the last 15 years, the National Education Association has collected salary data from as many of these school systems as will provide it and reported it to the Wage Fixing Authority in the Department of Defense. The 1975-76 salary schedule was based upon information provided by 187, or over 90 percent of the 205 school jurisdictions.

The data reported by the National Education Association covers minimum and maximum salaries and the number of salary increments for four salary lanes -- bachelors, masters, masters plus 30 hours, and doctorate. Using this data, the Wage Fixing Authority computes the difference between the minimum and maximum salaries for each lane and divides this figure by the average number of steps reported for that lane to determine the dollar increment between steps. The salary schedule for Class I personnel (elementary and secondary teachers) are directly based on these computations. However, there are four additional classes of personnel covering principals and guidance counselors. For these classes, linkage is established with the general schedule for purposes of establishing intergrade differentials.

Until recently, there was a 1-year lag in the salary schedules--data derived from the previous school year was used to construct the salary schedule for the current school year. As a result of litigation (Virginia J. March, et al versus the United States, Civil Action No. 3437-70 before the United States District Court for the District of Columbia), salary schedules are issued retroactively to the beginning of the school year starting in school year 1975-76. Thus, teachers are now being compensated at the current average pay rates of teachers in the school systems throughout the United States that make up the sample. But it was not until March 9, 1976, that salary schedules for school year 1975-76 became effective, resulting in a retroactive pay adjustment.

DOD officials believe that the dissatisfaction concerning pay expressed by teachers in the past has now been eliminated. They said that the bulk of the teachers come from school systems serving urban jurisdictions of 100,000 or more population and it makes sense to derive the salaries of their teachers from the salaries being paid by these systems.

STUDENT/TEACHER RATIOS

The latest available data on national student/teacher ratios at the time of our review was included in a report of the Office of Education compiled from preliminary fall 1975 statistics. This report showed the ratio for all national elementary (K through 8) and secondary (9 through 12) schools to be 20.4 students for each teacher. Comparable information for the dependent schools showed their student/teacher ratio to be 24.4 students for each teacher. The following table reflects the overseas school system's fiscal year 1976 statistics.

Type of school	Enrollment	Number of teaching personnel	Students per teacher
Kindergarten	13,412	271	49.5
Elementary	75,979	3,020	25.2
Secondary	51,993	2,459	21.1
Special Education	695	80	8.7
Total	142,079	5,830	24.4

The North Central Association of Colleges and Schools is the association responsible for accrediting the dependent school system's high schools, junior high schools, and middle schools. We reviewed the staffing standards set by this association for member schools for 1975-76 and noted that for all school levels, a ratio not to exceed 25 students for each professional staff member was prescribed.

In view of the above, we believe that the overseas school system compares favorably with stateside school systems in this area.

COST COMPARISONS

The latest available statistics from the Office of Education showed that the national average per-pupil cost for school year 1974-75 was $1,255 and the average of the 20 largest cities was $1,777. In selected school systems with enrollments close to that of the dependents schools, the average per-pupil cost ranged from $1,035 to $1,814. Based on reported expenditures for operating the dependents schools, the per-pupil cost was $1,318 for the same year; however, as noted below, all costs were not reported.

Cost comparisons between the dependents school system and stateside school systems cannot be readily made primarily because of two factors:

--Costs which are uniquely associated with the operations of a school system outside the United States.

--Unreported costs for logistic and administrative support provided by the military services to the overseas dependents schools on a nonreimbursable or less than fully reimbursable basis.

Unique costs

Approximately $23,300,000 of fiscal year 1976 costs were categorized as unique to the DOD schools. School employees are entitled to certain overseas allowances which are housing, post differentials and cost of living allowances. Costs are incurred to move the employees and their families to overseas locations. The DOD schools' curriculum includes a host nation program where foreign nationals are hired to teach students about the culture of the host country. There were 10 dormitories for students whose parents are stationed at remote locations. Finally, the schools incurred other costs for such items as intercurricular programs and separation allowances for foreign nationals.

The following table summarizes these costs.

Category	Amount
Overseas allowances	$10,700,000
Permanent change of station	6,000,000
Host nation program	3,700,000
Dormitories operation	1,900,000
Other	1,000,000

Unreported costs

Many expenses for the overseas school system have been incurred in the past by the military services on a nonreimbursable or less than fully reimbursable basis.

Neither the Office of Dependent Schools nor the military services have ever identified the amount of unreimbursed support that is provided to the overseas dependent school system. As a result, the complete cost of the school system's operation has never been included in its budget or reported elsewhere.

In order to provide more insight into the actual cost of operating the overseas school system we attempted to identify and quantify, to some degree, some of the major areas of support provided by the military services to the European region of the school system which were either nonreimbursed or less than fully reimbursed in school year 1975-76.

The European region of the overseas school system has only minimal support capability and historically has been dependent on the three military services for a wide range of logistical and adminstrative support services. Whether or not a particular service was to be reimbursed by the school system has, in the past, generally been covered by

a tri-service regulation. This regulation contains a listing of support services to be provided on a reimbursable basis and another listing of those to be provided on a nonreimbursable basis.

As a result of the recent organizational changes the status of the school system has changed from being a military controlled activity to one of a DOD tenant on military installations. Because of this, it has become necessary to formulate a new regulation which will govern the support provided by the military services to the school system. This new regulation was being drafted and is expected to be issued during fiscal year 1977. Until this new regulation is issued, the same type, level, and scope of services provided in the past are to continue. The regulation has not been issued as of the date of this report.

In reviewing the 23 categories of nonreimbursed support provided to the school system in the past we believed the following to be the most significant and attempted to develop dollar estimates for them:

	Amount
Civilian personnel office services	$1,390,000
Finance and accounting services	554,000
Housing	1,800,000
Schools officer personnel	592,000
Medical services	570,000
Computer services	220,000
Transportation services	3,500,000

Our estimates for these areas of unreported costs were made from the limited data available at the time of our review and, in some instances, were projections based on sample information. They are not meant to reflect the total actual costs incurred but they do indicate the magnitude of the unreported items.

Civilian personnel office services

The school system's regional headquarters has a small personnel division but its role is mainly advisory. Personnel support at the operating level is provided to the school system by civilian personnel offices of the three services. This support primarily consists of

--administering personnel actions and maintaining personnel records,

--some recruiting and hiring, and

--some training.

By analyzing the workload of the organizational elements of 20 civilian personnel offices and the grade levels within these elements, we estimate that 109 man-years of the operational level personnel support valued at $1,390,000 were provided to the overseas school system's European region.

Finance and accounting services

Most of the payroll, accounting, and financial services are provided to the overseas school system by the Army's Central Finance and Accounting Office in Heidelberg, Germany. Some of the functions performed by this office for the school system include.

--maintaining employees' pay accounts and leave records,

--computing employee payrolls,

--disbursing funds, and

--maintaining accounting records and ledgers.

Based on our analysis of the functions performed for the school system by this office we estimate that some $554,000 of its annual salaries are being incurred to support the overseas school system's European region.

Housing

Most American employees of the overseas school system are paid a housing allowance and live on the economy in the local communities. However, 1,400 employees with no other military affiliation entitling them to military housing were being provided housing by the military at the time of our review. We analyzed records on about 55 percent of the quarters provided these employees by the Army in Germany. Our analysis showed that, as a result of these quarters being occupied by overseas school system employees, the Army was paying $984,000 quarters allowances annually to military personnel because of the unavailability of military quarters. We did not analyze the records of quarters provided to the rest of the employees but, if similar conditions exist in other areas, we estimate that a total of $1.8 million in additional military quarters allowances are paid annually. Since the quarters allowances would have been paid to the school employees had they not been furnished quarters, there is no additional cost to DOD but the expense is not recognized as a school operating cost.

School officer personnel

Commanders of European installations where dependent schools are located are expected to appoint an individual, either military or civilian, as the installation's school officer. These individuals provide a broad range of support to the schools which includes

--arranging bus transportation,

--preparing budgets for logistics and mission support,

--initiating work order requests, and

--maintaining property book accountability.

We obtained information from 68 school officers as to their grade and the amount of man days they had spent in their school-officer capacity during school year 1975-76. Our sample represented the school officers responsible for 74 percent of the region's schools. The following table summarizes the number of individuals and time spent on school matters:

Personnel	Number part-time	Number full-time
Officers	42	12
Enlisted	2	3
Civilian	3	6

Based on the number of days these individuals reported that they had served in their school-officer capacity and their annual salary, we estimate that the military services in the European region are incurring costs of about $592,000 annually for school officers. We also noted that whereas the services are not normally reimbursed for their school officers, the European region was reimbursing the Air Force for four civilian school officers.

The function of a school officer was intended to be a liaison between installation commanders and school officials. However, the duties assigned to these individuals as described above, go far beyond this intended role and result in many individuals spending all or most of their time on school matters. Further, the Congress has told DOD that school operations should be totally civilianized and that military personnel should not have an operational role in the program.

Medical services

Civilian Government employees on duty outside the United States are entitled to receive outpatient medical services from the military for a nominal fee. The care available includes examination, consultation, treatment, laboratory testing, pharmaceutical, and physical therapy. During fiscal year 1976, the fee charged for this service by Army medical facilities was $1 per visit. Individuals not entitled to this rate were charged a flat fee of $19 per visit for the same care. We were informed that basically the same arrangements and services existed in the other two services.

About 4,900 employees of the European region were eligible for military outpatient medical care as a result of their employment with the school system. Using annual average outpatient usage rates for all patients we estimate that $570,000 in medical services was provided to these employees by the military services. We did not obtain information on their dependents and did not include them in our calculation, but conceivably their inclusion could double or triple this estimate.

Computer service

The Army provides four major areas of computer support services to the overseas school system's European region. The support provided includes actual computer operating time, personnel, and supplies. We estimated that the Army is annually spending some $220,000 to provide the school system with the following computer services:

--Accounting reports.

--Payroll processing.

--Directorate administrative support.

--Student scheduling and records management.

Transportation services

The daily transportation of pupils to and from school is the military installation's responsibility and is provided to the school system on a reimbursable basis. The amount to be reimbursed for the drivers of Army-owned vehicles in Europe has recently become a source of controversy between the Army and the school system.

In a July 1976 report the Army Audit Agency stated that, whereas the Army paid school bus drivers in Europe $6.8 million in fiscal year 1976 for transporting school children, the school system reimbursed the Army only about $3.5 million for this support. The Agency maintained that the school system should reimburse Army activities for the full salaries of the school bus drivers instead of a portion of them. The school system, on the other hand, maintains that they should continue reimbursing the Army for that portion of the school bus drivers' salaries equal to the time actually spent driving school children, performing driver maintenance, and awaiting dispatch. In support of this, the school system noted that drivers, on the average, spent only 5 hours a day driving for the schools and that the remaining time during the school year, as well as nonschool days, was unaccounted for. School officials believed that at least 50 percent of this unaccounted-for time was unproductive (dead time). If the schools had fully reimbursed the Army, an additional $3.3 million would have been charged to school system operating costs.

In view of the current controversy as to the amount that should be reimbursed, the Office of Dependents Schools should consider other alternatives. One would be to hire bus drivers on a part-time basis (see p. 18 for further discussion). Another alternative would be to assign additional duties, such as janitorial or general maintenance, during their nondriving hours.

UNRELIABILITY OF COST AND MANPOWER DATA

The quarterly reports on costs and manpower submitted by the regional offices and the budget justification data submitted by the European region are incomplete and inaccurate. Hence, neither DOD officials nor the Congress can fully rely on this information which is used to support the budget requests for the dependent schools.

The only financial management report required of the regional offices by the Office of Dependents Schools is the schools' quarterly report. The report is intended to provide DOD managers with details on the costs and manpower involved in the operation of the school system. The Office Director was reluctant to release the reports to us because they were unreliable. He said that the data collection system in the overseas areas is not set up to capture or display the type or quality of information required by the report format.

We reviewed the budget justification data submitted by the European region and found instances of inaccurate

or unsupported information. Some of these instances were due to carelessness in preparing the document while others were due to deficiencies in the system.

We compared the latest budget justification data submitted by the European region with that of prior years and found several obvious errors, such as, transposition of data. Other errors were called to our attention by regional personnel as a result of questions raised by the Office of Dependents Schools. Most of these instances resulted from carelessness in preparation and review of the data before submission.

We attempted to examine the support for salary costs of foreign nationals and textbook requirements shown in the budget request data. There was no support for the fiscal year 1976 average salary cost shown for bus drivers and clerical personnel. Regional officials could not explain the source of the figure shown. The Army advised the Office of Dependents Schools that the average salary cost for bus drivers in Germany was $9,200 compared with the $11,541 for Army bus drivers shown in the budget data. Regional officials told us that they included American civilian employees in the salary costs requested for foreign national clerical personnel which resulted in the high salary of $16,625.

The budget data used to determine the number of books required to be purchased, showed an inventory of 2.4 million textbooks on hand. At our initial meeting to obtain support for the inventory quantity, regional officials told us that the figure was the dollar value of the books. Later, they conceded that the figure purported to show the quantity on hand, but they had no support for it but would attempt to obtain a current inventory. In September 1976, they advised us that the correct inventory of textbooks on hand was approximately 2 million.

CONCLUSIONS AND RECOMMENDATIONS

The law governing teachers' salaries in the overseas dependent schools provides that the salaries must be comparable with stateside schools. A retroactive adjustment during the school year is made to achieve salary comparability. Student/teacher ratios in the dependent schools compared favorably with the stateside schools and closely followed staffing standards prescribed by the accrediting association.

Comparisons of operating costs cannot be readily made because the dependents schools incur unique costs associated with overseas operations and all costs of operating the DOD schools have not been identified and reported. Furthermore,

the reported costs are unreliable because the data collection system did not provide accurate information.

We believe that in order to determine the total operating costs, school officials should identify and report all categories of cost even though some support may be provided by the services on a nonreimbursable basis. This becomes particularly important when setting rates to be charged to tuition-paying students.

In order to provide for proper financial management, we believe that school officials should give priority attention to developing an accounting system that will satisfy the objectives set forth in the Budget and Accounting Procedures Act of 1950, as follows:

(1) Full disclosure of the financial results of agency activities.

(2) Production of adequate financial information needed for agency management purposes.

(3) Effective control over and accountability for all funds, property, and other assets for which each agency is responsible.

(4) Reliable accounting results to serve as the basis for preparing and supporting agency budget requests, for controlling the execution of the budgets, and for providing financial information required by the Office of Management and Budget.

(5) Suitable integration of agency accounting with the central accounting and reporting operations of the Treasury Department.

Once established, the system must be disciplined to insure that reports and budget justification data are prepared diligently.

We recommend that the Secretary of Defense require the Office of Dependents Schools to:

--Revise functions assigned to schools officer personnel, limiting them to a liaison role.

--Identify and report all costs in order to determine the total cost of operating the schools.

--Give priority attention to developing an accounting system in accordance with the objectives set forth in the Budget and Accounting Procedures Act of 1950.

--Take action to discipline the system to insure the reliability of cost and budget information.

AGENCY COMMENTS

The Department of Defense agreed with our recommendations and said that actions were underway to implement them. To identify all costs, the services will be asked to submit information on nonreimbursable costs which will be included in the schools' reporting system. In September 1976, a system accountant was added to headquarters staff to begin development or revision of the schools' accounting system on a worldwide basis. Also, the Defense Audit Service will be requested to perform a worldwide audit of the school system in the administrative and financial management areas. Finally, the budget and quarterly school reports were being revised to provide more reliable data.

CHAPTER 4

AREAS FOR POTENTIAL COST REDUCTIONS

Our review of the efficiency of overseas schools operations identified areas which warrant attention for potential cost reductions. Increased use of U.S. citizens and dependents in lieu of foreign nationals in some countries would reduce the overall cost primarily because of additional tax revenues. Alternative means of providing bus transportation for students offer opportunities for cost savings.

USE OF FOREIGN NATIONALS

The dependents schools in Europe have 1,135 positions designated for foreign nationals including 385 clerical, 257 supply clerk and 167 library clerk positions. About 840 additional positions in other organizations are filled by foreign nationals and charged to school operations on a reimbursable basis. As of March 31, 1976, approximately 300 of these positions were filled by dependents of DOD personnel stationed in Europe.

Seventy percent of the positions designated for foreign nationals are located in Germany. A study conducted by Army personnel officials in August 1976 of white collar type positions, showed that for Germany there was little difference in cost, considering only cash outlays between employing dependents and foreign nationals. We noted that the study did not consider the additional revenues the Government would receive from taxes on dependent incomes nor did it consider cost implications resulting from differences in fringe benefits of foreign nationals as compared to those provided dependents.

We estimate that about 20 percent of dependents' income would be returned to the Government in tax revenues. Applying that rate to the salaries for the 1,160 positions in Germany designated for foreign nationals (excluding host nation teachers), the overall costs of the dependents schools for fiscal year 1977 could be reduced by about $3 million if dependents could be utilized.

Dependents school officials agreed that savings could be achieved by greater use of dependents. They cautioned, however, that notwithstanding any economic advantage, the displacement of foreign national employees by dependents would have widespread political implications. School officials told us that as vacancies occur in designated

positions dependents will be hired, where available, but no action will be taken to replace foreign nationals with dependents.

BUS TRANSPORTATION

For fiscal year 1977, the dependents schools expect the costs for transporting students to be $23.6 million or about 10 percent of the total schools' budget. These costs have increased almost 25 percent during the past 2 years and have become a matter of increasing concern to school officials. The schools contract for approximately half of the transportation services and the remainder is provided mainly by DOD-owned buses with foreign national drivers.

In 1974, we reported on the need for improvements in the management of school transportation services. 1/ We recommended that (1) a special task force be established to evaluate and report on opportunities for better transportation management, (2) routes and loading be periodically reassessed, and (3) details on costs be incorporated into a management information system. DOD did not agree with our recommendations and no system-wide action was taken on them. In a few instances, local actions were taken to reduce the number of buses required.

In 1975 the District Logistics Officer made an extensive study of bus transportation in Okinawa. At the time of the study, 85 percent of the transportation services was obtained from a contractor who was the sole bidder to provide these services on Okinawa. The study showed that the cost per bus had almost tripled in the past 5 years, increasing from $6,367 per bus to $18,690. The study presented three alternatives to the present transportation system. The most cost-effective alternative provided for purchasing 50 percent of the buses, leasing the remainder, and hiring part-time dependent drivers. The projected 5-year cost of this alternative was about $7 million compared to about $30 million if the current contracting system were retained.

A recent study of school bus operations in Germany showed that an annual savings of $1.7 million could be achieved by replacing 270 foreign national bus drivers with dependents hired on a part-time basis. The study

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1/"Problems in Providing Education Overseas for Dependents of U.S. Personnel" (B-131587, Sept. 25, 1974).

did not address the possibility of hiring foreign nationals on a part-time basis and indicated that there was no accurate information on the availability of qualified dependents.

In August 1976, the Office Director reminded the Regional Directors that they were responsible for determining student transportation requirements, monitoring service, and being alert to ways of achieving economies in school transportation. A survey was also initiated by the Office Director to obtain management information on the total transportation program including costs involved. This survey has not been completed as of January 1977.

CONCLUSIONS AND RECOMMENDATIONS

We believe that there are opportunities for reducing the overall cost of operating the dependents schools. A program should be initiated to determine where and how to make greater use of U.S. citizens and dependents in lieu of foreign nationals to reduce overall personnel costs. Policy questions, such as whether to replace foreign nationals with U.S. citizens and dependents, should be resolved.

Further, we believe a program should be instituted to determine system-wide the most economical alternatives for transporting students and actions necessary to implement them. School officials should consider alternatives using DOD-owned or leased buses and part-time dependent and foreign national drivers.

Accordingly, we recommend that the Secretary of Defense direct the Office of Dependents Schools to initiate programs to identify opportunities for the increased use of U.S. citizens and dependents and alternative means of providing bus transportation which would reduce the overall cost of overseas schools.

AGENCY COMMENTS

The Department of Defense agreed with our recommendation. DOD said that efforts to effect economies have been intensified, particularly in transporting dependent students. With respect to school bus drivers, DOD said the use of U.S. dependents and/or foreign nationals as part-time drivers does offer possibilities for reducing transportation costs, but further evaluation was necessary before action could be taken. DOD added that it would explore the possibility of meeting other manpower needs for school custodians and handymen by using the local national bus drivers currently employed on a full-time basis.

While not included in DOD's comments on our report, school officials told us they were also taking action to increase the use of U.S. citizens and dependents in clerical and supply positions.

APPENDIX I

JOHN L. MC CLELLAN, ARK., CHAIRMAN
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CHIEF COUNSEL AND STAFF DIRECTOR

United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

February 4, 1976

The Honorable Elmer B. Staats
Comptroller General of the United States
Washington, D. C.

Dear Mr. Staats:

The Department of Defense currently operates an overseas dependents school system that has nearly 160,000 pupils. The bulk of the student population is in dependents schools in the European area.

In the FY 1976 Defense Appropriations Bill, $211.4 million was provided for operation of this school system, $4.2 million below the budget request but $6.9 million above the FY 1975 appropriation. For FY 1977, the budget request is $248 million.

The rapidly rising cost of the dependents school system is of concern to this Committee. In addition, management questions addressed last year are also of major interest.

Accordingly, the Committee would like the General Accounting Office to review the overseas dependents education program and examine the following issues:

1. To what extent is the Department complying with the direction in House Report 94-710, the Conference Report on Department of Defense appropriations, to centralize management and eliminate the geographical managers in the system.

2. What are the comparisons between the costs of operating the overseas schools and the costs of operating school systems in the U. S.? In making this comparison, careful consideration should be given to services and goods that are provided indirectly to the schools but are not part of the dependents education budget (e.g., base operations cost, utilities, etc.)

3. Are teachers in the dependents education schools receiving salaries comparable to teachers in the U. S.? Above or below?

4. Are student/teacher ratios "richer" in overseas dependents schools than in comparable U. S. schools? If so, what are the reasons?

APPENDIX I

5. What are other valid measures of comparison between overseas dependents schools and U. S. schools, and what are the relevant numbers?

The Committee would like to have this report not later than next December.

With kind regards, I am

Sincerely,

John L. McClellan
Chairman

JLM:ljm

APPENDIX II

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

MANPOWER AND
RESERVE AFFAIRS

30 DEC 1976

Mr. H. L. Krieger
Director, Federal Personnel
and Compensation Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Krieger:

This is in reply to your letter of November 10, 1976, to Secretary Donald Rumsfeld regarding the financial management of the Department of Defense Dependents Schools (OSD Case #4481). Our comments to the General Accounting Office Draft Report are attached.

In our continuing desire to improve the quality of the Dependents Schools operation, we appreciate this opportunity to comment on the draft report.

Sincerely,

David P. Taylor

Attachment

APPENDIX II

Department of Defense Comments on GAO Draft Report of November 19, 1976, on "Financial Management of Overseas Dependents Schools" (OSD Case #4481)

Summary of GAO Findings, Conclusions and Recommendations

General Accounting Office activities were directed toward examining the extent to which the Department of Defense is complying with the Congressional directive to centralize management; the comparability of the overseas dependents schools with stateside schools in the areas of teacher salaries, cost of operations and student teacher ratios; and opportunities for cost reductions.

The GAO found that DoD has complied with the congressional mandate to centralize management of the overseas dependents schools and eliminate separate geographical management by the services. It was further noted that DoD teacher salaries are now being adjusted to comparably reflect salaries being paid to teachers in school systems serving urban jurisdictions of 100,000 or more population. Upon examination of the latest available data, the GAO also determined that student/teacher ratios compared favorably with stateside school systems. GAO findings in cost of operations and opportunities for cost reductions yielded specific conclusions and recommendations. The following section responds to these recommendations.

GAO Recommendation:

The Office of Dependents Schools should consider revising the functions assigned to schools officer personnel and limiting them to strictly a liaison role.

DoD Comment:

Concur. Each school regional director has been instructed to make certain that all day-to-day operational responsibilities have been assigned to appropriate civilian employees of the Dependents Schools. Further, the specific responsibilities of schools officer personnel will be defined in future DoD publications.

GAO Recommendation:

Identify and report all costs in order to determine the total cost of operating the schools.

DoD Comment:

Concur. Action has been taken to institute interservice support agreements at the local level (school or district) for the reimbursable

support provided by an activity under a proposed tri-service support regulation. An additional planned requirement is that each service submit non-reimbursable cost information covering support to the schools, districts or regions (e.g., civilian personnel office and finance and accounting office services, housing and cost of living allowances, etc.). These non-reimbursable costs will also be included in our reporting system.

GAO Recommendation:

Give priority attention to developing an accounting system in accordance with the objectives set forth in the Budget and Accounting Practices Act of 1950.

DoD Comment:

Concur. A systems accountant was added to the DODDS Headquarters staff in September 1976 to begin development and/or revision of the DODDS accounting system on a worldwide basis.

GAO Recommendation:

Take action to discipline the system to insure the reliability of cost and budget information.

DoD Comment:

Concur. The budget report (OP-15) prepared by the regions and the Dependents Schools Quarterly Report (DD 1997) is currently being revised to provide more consistent data at all levels of operation including school, district, region, and Headquarters DODDS. Additionally, to improve communications, discuss problems of mutual interest, and determine priorities for resolving such problems, a worldwide school financial managers conference will be scheduled for at least once a year.

GAO Recommendation:

Initiate programs to identify opportunities for the increased use of United States citizens and dependents and alternative means of providing bus transportation which would reduce the overall cost of overseas schools.

DoD Comment:

Concur. Every effort should be made to reduce the overall costs of operating the dependents schools and we have intensified efforts to effect economies, particularly in transporting dependent students. In several overseas locations, bus transportation costs have decreased because new family housing and school construction programs resulted in students living within walking distance of school. Additionally, school starting times have been staggered to permit better bus utilization and bus routes have been revised to increase seat load factors. However, the overall savings impact of the above actions have been largely offset by inflationary increases in fuel costs and personnel salaries.

With respect to school bus drivers, the use of U.S. dependents and/or foreign nationals as part-time drivers does offer possibilities for reducing bus transportation costs. However, further evaluation is necessary to assess the overall impact in terms of manpower requirements and availability, costs, and time required to effect the change. Additionally, the Department of Defense Dependents Schools does not operate the school bus system but relies on the Military Departments to provide this service on a reimbursable basis. Buses are generally operated by full-time foreign national employees. Accordingly, the Military Departments will be directed to hire part-time U.S. dependents and/or foreign nationals to operate school buses in support of the dependents schools whenever it is cost advantageous to do so and when no other restrictions such as treaties, agreements, etc., prohibit such action. For example, licensing procedures in Germany require that U.S. dependents be 21 years of age and have experience operating vehicles weighing at least 7 tons. For a number of reasons, full scale displacement of currently employed foreign national bus drivers cannot be made. However, we will explore the possibility of meeting other manpower requirements for school custodians and handymen, utilizing those foreign national bus drivers currently employed on a full-time basis. The extent to which these programs will be implemented will vary by country. Agreements and treaties between the U.S. and host country governments, as well as the effects of labor unions and employment conditions are factors which have an impact.

We are pursuing other programs designed to reduce expenditures for school transportation. These include:

a. Development of a Department of Defense Directive which promulgates uniform policies and responsibilities for transportation of dependent school children in overseas areas, including the requirement for periodic program evaluation of alternative methods of providing student transportation.

b. Institution of a school transportation information system containing specific data for every school within the dependents school system. Data will form the basis for identifying high cost activities requiring intensified

management attention and will assist in developing requirements during the planning, programming, and budgeting cycle.

c. Increased involvement of Dependents Schools staff from the regional level down to the local school administrator in matters relating to school transportation.